CBO TESTIMONY

Statement of
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on the
Conservation Reserve Program

before the
Subcommittee on Environment, Credit,
and Rural Development
Committee on Agriculture
U.S. House of Representatives

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NOTICE

This statement is not available for public release until it is delivered at 10:30 a.m. (EDT), Tuesday, August 2, 1994.

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Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to discuss the Conservation Reserve Program (CRP). My statement this morning will briefly describe how the Congressional Budget Office (CBO) baseline for the CRP is constructed and how we interpret various Administration actions and budget rules as they relate to estimating the budgetary impact of this program.

The CBO baseline currently assumes that, beginning in fiscal year 1996, CRP contracts will not be extended when they expire. Although some have suggested that the baseline projections should assume extension of the existing contracts, CBO has no basis for assuming that contracts will be extended, and indeed the law governing baseline projections does not require such an assumption. Consequently, over the next five years, the baseline shows spending for the CRP declining from a high of $1.8 billion in 1995 to about $735 million in 1999 as contracts covering almost 30 million acres expire.

BACKGROUND

The Food Security Act of 1985 (FSA) authorized the Conservation Reserve Program. It directed the Department of Agriculture (USDA) to enter into contracts with landowners and farm operators to enroll from 40 million to 45 million acres of farmland into the CRP by 1990. The FSA also stipulated that CRP contracts have a term of between 10 and 15 years.

Through these contracts, farmers have been paid to retire highly erodible cropland from agricultural production and to plant permanent vegetative cover on the land. The federal government shares the costs of planting vegetative cover and pays contract holders an annual rental fee for the duration of the contract. Between 1985 and 1990, almost 34 million acres were enrolled in the CRP under 10-year contracts.

The Food, Agriculture, Conservation, and Trade (FACT) Act of 1990 modified the CRP to expand the types of land eligible for the program and authorized USDA to continue enrolling land in the CRP through 1995. With the exception of a small amount of acreage devoted to planting hardwood trees and certain specialized uses, contracts for all of the 2.5 million acres entered into the CRP after 1990 are for 10 years.

The FACT Act also required USDA, by December 31, 1993, to conduct a study of land that was enrolled in the CRP before 1990. The purpose of the study was to determine whether any of this acreage should remain in the CRP when existing contracts expire. USDA was to use the results of this study in determining whether to extend contracts for environmentally sensitive lands for up to an additional 10 years.

To date, USDA has not completed that study. Moreover, the FACT Act limited the total number of studies USDA is required to perform, and as a result, the study may never be carried out. Without the study, USDA's authority to extend expiring contracts is unclear.

Some people argue that USDA has no authority to extend CRP contracts until it completes the study. Others argue that the FACT Act provides USDA with the authority to extend CRP contracts regardless of whether the study is carried out. Some have also suggested that because the Food Security Act permits CRP contracts of up to 15 years, USDA could extend the initial 10-year contracts for another five years under the authority of that act. In any event, USDA has given no official indication that any contracts will be extended beyond their initial 10-year terms, even if it has the authority to do so.

THE CBO BASELINE

As Table 1 illustrates, CRP contracts will begin to expire in fiscal year 1996. By the end of 1999, contracts covering 30 million acres, with annual rental payments totaling $1.5 billion, will have expired. As a result, without extending existing contracts or enrolling new acreage, CRP spending will

decline from an estimated $1.8 billion in 1995 to $0.7 billion in 1999 (see Table 1).

According to some analysts, the baseline should not assume that CRP contracts will expire and should, instead, project funding based on the 38 million acres we estimate will be in the reserve by 1995. We see no basis for such a projection. USDA has not announced any policy regarding contract extensions, nor has it proposed any regulations to carry out such extensions.

TABLE 1. THE CONSERVATION RESERVE PROGRAM, 1995-1999
(By fiscal year, in millions of acres and dollars)

	1995	1996	1997	1998	1999	Five-Year Total
			Expiring Acreage			
Number of Acres	0	2.0	13.7	8.9	5.4	30.0
Annual Rental Payments	0	88	684	415	267	1,454
			Baseline Spending			
Budget Authority	1,790	1,815	1,863	1,173	735	7,376
Outlays	1,840	1,815	1,863	1,173	735	7,426

SOURCE: Congressional Budget Office.

NOTE: These figures represent spending for the Conservation Reserve Program. They do not include any effects on other Department of Agriculture programs.

In fact, the Administration's 1995 budget and the midsession review of the budget, which reflect Administration policy, both show CRP spending declining sharply over the next five years. Particularly in light of the ambiguity surrounding USDA's legal authority to extend contracts, CBO cannot assume extensions in its baseline unless some very clear, official indication exists that USDA can and will extend some or all of the contracts.

Some analysts have argued that the Balanced Budget and Emergency Deficit Control Act of 1985 requires that the baseline be projected assuming that 38 million acres remain in the CRP indefinitely. That is simply not the case.

Section 257(b)(2) of that act, which specifies procedures for baseline projections, requires that "no [direct spending] program with outlays greater than $50 million shall be assumed to expire in the budget year or outyears." Although many of the current CRP contracts will expire during the baseline period, the CRP program itself does not expire. It is operating and will continue to operate through the projection period, albeit at a declining level. Thus, the budget scoring rules governing the treatment of expiring programs have no relevance in this context.